PROLONG INTERNATIONAL CORP
Form 10-Q
May 07, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________to______________________

Commission File No 0-22803

PROLONG INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Nevada	6 Thomas Irvine, CA 92618
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices) (Zip Code)

(949) 587-2700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes [X] No [_]

(2) Yes [X] No [_]

There were 28,438,903 shares of the registrant's common stock ($0.001 par value) outstanding as of May 3, 2001.

PROLONG INTERNATIONAL CORPORATION
FORM 10-Q
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Item 1. Financial Statements

PROLONG INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS

	March 31, 2001 (Unaudited)	December 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 124,380	$ 126,917
Accounts receivable, net of allowance for doubtful accounts of $168,775 at March 31, 2001 and at		

December 31, 2000, respectively	4,119,891	3,245,892
Inventories, net	1,031,122	970,236
Prepaid expenses, net	302,898	360,227
Income taxes receivable	---	87,002
Prepaid television time	120,149	5,583
Advances to employees, current portion	74,235	57,525
Deferred tax asset	858,453	943,177
Total current assets	6,631,128	5,796,559
Property and equipment, net	3,114,244	3,193,109
Intangible assets, net	6,403,315	6,529,986
Deferred tax asset, noncurrent	1,925,750	1,972,387
Other assets	165,944	223,159
TOTAL ASSETS	$18,240,381	$17,715,200

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 2,682,360	$ 2,183,482
Accrued expenses	889,856	937,618
Line of credit	2,088,157	2,050,716
Notes payable, current	724,118	725,442
Income taxes payable	4,780	---
Total current liabilities	6,389,271	5,897,258
Notes payable, noncurrent	2,265,738	2,277,130
Total liabilities	8,655,009	8,174,388
COMMITMENTS AND CONTINGENCIES (Note 7 & 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.001 par value; 50,000,000 shares authorized; no shares issued or outstanding	---	---
Common stock, $0.001 par value; 150,000,000 shares authorized; 28,438,903 shares issued and outstanding	28,439	28,439
Additional paid-in capital	15,035,261	15,035,261
Accumulated deficit	(5,478,328)	(5,522,888)
Total stockholders' equity	9,585,372	9,540,812
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$18,240,381	$17,715,200

See notes to consolidated condensed financial statements

PROLONG INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
NET REVENUES	$ 4,151,945	$ 7,757,199
COST OF GOODS SOLD	1,307,251	1,726,911
GROSS PROFIT	2,844,694	6,030,288
OPERATING EXPENSES:		
Selling and marketing	1,569,927	3,312,551
General and administrative	977,156	1,428,153
Total operating expenses	2,547,083	4,740,704
OPERATING INCOME	297,611	1,289,584
OTHER INCOME (EXPENSE), net:		
Interest (expense)	(123,467)	(154,256)
Interest income	6,557	2,335
Total other (expense) net	(116,910)	(151,921)
INCOME BEFORE PROVISION FOR INCOME TAXES	180,701	1,137,663
PROVISION FOR INCOME TAXES	136,141	496,843
NET INCOME	$ 44,560	$ 640,820
NET INCOME PER SHARE:		
Basic	$ 0.00	$ 0.02
Diluted	$ 0.00	$ 0.02
WEIGHTED AVERAGE COMMON SHARES:		
Basic	28,438,903	28,445,835
Diluted options outstanding	0	128,219
Diluted	28,438,903	28,574,054

See notes to consolidated condensed financial statements

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PROLONG INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 44,560	$ 640,82
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	210,830	225,00
Provision for doubtful accounts	---	30,00
Deferred taxes	131,361	2,078,94
Reserve for inventory obsolescence	(118,837)	(100,00
Compensation costs related to options	---	22,99
Amortization of warrants issued to lender	42,093	--
Changes in assets and liabilities:		
Accounts receivable	(873,999)	(2,590,75
Inventories	57,951	(135,89
Prepaid expenses	15,236	(130,30
Income taxes receivable	87,002	--
Prepaid television time	(114,566)	(226,86
Other assets	54,340	(40,63
Accounts payable	498,878	283,25
Accrued expenses	(47,762)	237,05
Income taxes payable	4,780	256,43
Net cash (used in) provided by operating activities	(8,133)	550,05
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,419)	--
Employee advances	(16,710)	3,07
Net cash (used in) provided by investing activities	(19,129)	3,07
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(12,716)	(10,78
Net proceeds (payments) from line of credit	37,441	(885,00
Net cash provided by (used in) financing activities	24,725	(895,78
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,537)	(342,65
CASH AND CASH EQUIVALENTS, beginning of period	126,917	1,094,77
CASH AND CASH EQUIVALENTS, end of period	$ 124,380	$ 752,12

SUPPLEMENTAL CASH FLOW DISCLOSURES:

Income taxes paid	$ ---	$ --
Interest paid	$ 123,467	$ 154,25

SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:
During the first quarter of 2000, the Company completed the following transaction:
Recorded $22,999 to additional paid-in capital for compensation costs related to stock options.

See notes to consolidated condensed financial statements

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PROLONG INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. BUSINESS

Prolong International Corporation (PIC) is a Nevada corporation originally organized on August 24, 1981. In June 1995, PIC acquired 100% of the outstanding stock of Prolong Super Lubricants, Inc. (PSL), a Nevada corporation. In 1997, Prolong Foreign Sales Corporation was formed as a wholly-owned subsidiary of PIC. In 1998, Prolong International Holdings Ltd. was formed as a wholly-owned subsidiary of PIC. At the same time, Prolong International Ltd. was formed as a wholly-owned subsidiary of Prolong International Holdings Ltd. PIC, through its subsidiaries, is engaged in the manufacture, sale and worldwide distribution of a patented complete line of high-performance and high-quality lubricants and appearance products.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements include the accounts of PIC and its wholly-owned subsidiaries, PSL, Prolong Foreign Sales Corporation, Prolong International Holdings Ltd. and its wholly-owned subsidiary, Prolong International Ltd. (collectively, the Company or Prolong). All significant intercompany accounts have been eliminated in consolidation. These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the Form 10-K for the year ended December 31, 2000 filed by the Company with the Securities and Exchange Commission.

3. INVENTORIES

Inventories consist of the following:

	March 31, 2001	December 31, 2000

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	(Unaudited)	
Raw materials	$ 519,752	$330,641
Finished goods	511,370	639,595
	$1,031,122	$970,236

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	March 31, 2001	December 31, 2000
	(Unaudited)	
Building and improvements	$ 2,280,783	$2,280,783
Computer equipment	265,965	272,978
Office equipment	55,753	55,753
Furniture and fixtures	585,168	585,168
Automotive equipment	35,925	35,925
Exhibit equipment	115,143	115,143
Machinery and equipment	17,953	17,953
Molds and dies	223,383	213,951
	3,580,073	3,577,654
Less accumulated depreciation	(1,003,829)	(922,545)
	2,576,244	2,655,109
Land	538,000	538,000
	$ 3,114,244	$3,193,109

5. LINE OF CREDIT

On May 8, 2000, the Company entered into a new $6,000,000 credit facility with a financial institution, expiring in May 2003. Effective November 21, 2000, the credit facility was reduced to $5,000,000. Such facility is collateralized by eligible accounts receivable and inventories. Interest is currently payable monthly at the rate of the financial institution's prime rate (8.0% at March 31, 2001), plus 4% subject to a minimum interest charge of $50,000 per quarter, and the credit facility contains certain revised defined net income and net equity financial covenants for the Year 2001. At March 31, 2001, the Company was in compliance with or had received a waiver which is dependent upon the Company and the financial institution executing an amendment to the credit agreement by May 31, 2001, for all financial covenants. As of March 31, 2001, $2,088,157 was outstanding and approximately $180,000 was available under the terms of the line of credit.

6. NOTES PAYABLE

Notes payable consist of the following as of March 31, 2001:

a) Note payable to a bank bearing interest at 7.875% per annum to be repaid in monthly principal and interest payments of $13,050 with a final payment of all remaining unpaid principal and interest due on May 1, 2008.	$1,622,264
b) Loan from CDC Small Business Finance Corporation bearing interest at 7.65% per annum to be repaid in monthly principal and interest payments of $6,376 each through July 1, 2018.	692,592
c) Loan from ABQ Dolphin LP; interest is payable monthly at the rate of the Prime Rate (8.0% at March 31, 2001) plus 2.5%. The loan has a maturity date of October 30, 2001 and includes an option to extend for one additional year. In connection with this loan, the Company issued a warrant to purchase 900,000 shares of common stock at an exercise price of $0.1875. If the loan is paid in full on or before October 30, 2001, the Company may repurchase up to an aggregate of 300,000 of the shares subject to the warrant at a price of $0.05 per share.	675,000
	2,989,856
Less current maturities	(724,118)
	$2,265,738

Year ending December 31,	
2001	$ 712,726
2002	53,974
2003	57,969
2004	61,909
2005	66,856
Thereafter	2,036,422
	$2,989,856

7. CONTINGENCIES

Litigation - Michael Walczak et al - On or about November 17, 1998, Michael Walczak et al (Walczak), on behalf of himself and other similarly situated shareholders of EPL filed a purported class action and derivative suit in the U.S. District Court (the Court) in San Diego, California against PIC, PSL, EPL and certain of their respective former and current officers and directors. The named plaintiffs allege breach of contract, certain fraud claims, civil RICO, breach of fiduciary duty and conversion and seek monetary

damages. The named plaintiffs in the action are allegedly current EPL shareholders who hold less than two per cent (2%) of the outstanding shares of EPL's common stock, in the aggregate. The plaintiffs applied for a preliminary injunction to halt the sale of the assets of EPL to PIC and to prevent the dissolution of EPL.

On November 25, 1998, the Court granted a temporary restraining order without a hearing and before opposition could be submitted. On December 30, 1998, the Court held a hearing on whether a preliminary injunction should be issued in connection with such action. The Court entered a preliminary injunction based on the plaintiffs' (a) alleged claim for fraudulent conveyance in connection with PSL's license agreement with EPL and (b) alleged claim for breach of fiduciary duty. The preliminary injunction enjoins the further consummation of the asset purchase transaction and prevents EPL from completing its liquidation and dissolution until further notice from the Court. The preliminary injunction will last until the case is tried on its merits or until the preliminary injunction is otherwise dismissed. The Court ordered the Walczak plaintiffs to post a bond for $100,000, which bond was posted. PIC appealed the Court's preliminary injunction ruling, which appeal was subsequently denied.

The Prolong defendants successfully moved to change venue and the case was ordered transferred to the federal court in Orange County, California, where PIC's principal office is located. In December 1999, plaintiffs' counsel was disqualified from the matter on the grounds of unwaivable conflict of interest. Plaintiffs have selected new counsel, except for three of the plaintiffs who withdrew from the case. The Prolong defendants each filed and served motions to dismiss the complaint pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure. The motion has been granted in part and denied in part. There has been no ruling to date on the Walczak plaintiffs' request to certify the class as a class action. A mediation conference has been held and concluded and substantial settlement discussions have been undertaken. However, final resolution cannot presently be determined. PIC and PSL and their respective current officers and directors believe that the settlement, if approved, will not result in a material adverse affect on the Company's financial statements. If the settlement as proposed is not consummated, the Company will continue to vigorously defend against the claims.

Federal Trade Commission - On February 15, 1999, PSL entered into a negotiated Consent Order with the Federal Trade Commission (FTC) based upon concerns of the commission related to inadequate substantiation of certain advertising claims for Prolong Engine Treatment. Without admitting any of the allegations, the Company agreed that it would not make advertising claims without having adequate scientific substantiation for such claims. No fine or monetary redress was levied in connection with the FTC action.

Four purported class action lawsuits based on the FTC action have been brought against PIC and/or PSL. Although meaningful settlement discussions are proceeding, final resolution of the below referenced FTC based lawsuits cannot presently be determined. The suits are identified as follows:

- Kachold et al v PSL was filed November 19, 1999 and is pending in the U.S. District Court, Northern District of Illinois, file No. 99-CV-08349. The case is a purported class action and individual action alleging violation of the Illinois Consumer Fraud Act, Magnuson Moss Consumer Products Warranty Act, and for damages. Prolong

successfully filed a motion to dismiss the complaint, and plaintiff thereafter filed an amended complaint. PSL's officers and directors believe that there is no merit to the plaintiffs' complaint and are vigorously defending against the claims. The parties are presently involved in meaningful settlement discussions.

- Fernandes et al v PSL was filed January 5, 2000 in Los Angeles County Superior Court, file No. BC222712. The case is a purported class action alleging false advertising, unfair competition, violation of the California Consumer Legal Remedies Act, fraud, deceit, negligent misrepresentation and for equitable relief. PSL's officers and directors believe that there is no merit to the plaintiffs' complaint and are vigorously defending against the claims. The parties are presently involved in meaningful settlement discussions.

- Bowland et al v PSL was filed January 21, 2000 in County Court at Law No. 4, Nueces County, Texas, file No. 00-60119-4. The case is a purported class action alleging breach of contract, breach of express warranty and violations of the Texas Deceptive Trade Practices Act. PSL's officers and directors believe that there is no merit to the plaintiffs' complaint and are vigorously defending against the claims. The parties are presently involved in meaningful settlement discussions.

- Mata et al v PSL and PIC was filed February 18, 2000 in the District Court of Hidalgo County, Texas, 275th Judicial District, file No. C-292-00-E. The case is a purported class action alleging breach of contract and breach of express and implied warranty. A special appearance and motion to dismiss was filed by PIC and an answer and plea in abatement was filed by PSL in order to stay this matter based upon the prior filed Bowland case. PSL's officers and directors believe that there is no merit to the plaintiffs' complaint and are vigorously defending against the claims. The parties are presently involved in meaningful settlement discussions.

Helman et al v PSL and PIC et al - On April 8, 1997, prior to the filing of the Walczak complaint, the attorney who was disqualified from representing the plaintiffs in Walczak filed Helman et al v PSL and PIC et al in the Court of Common Pleas, Columbiana County, Ohio. The case was filed as a purported class action alleging breach of fiduciary duty, breach of oral and written contract, and fraud, in 13 original causes of action. The court subsequently denied plaintiff's motion to certify the case as a class action. The appellate court in Ohio largely affirmed a series of orders by the trial judge in favor of PSL, the effect of which was to reduce the number of complaining parties from approximately one hundred, to seven. Trial of the remaining plaintiffs' matters is set for January 15, 2002. PSL's officers and directors believe that there is no merit to the plaintiffs' complaint and are vigorously defending against the claims.

PIC and its subsidiaries are subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. PIC's management does not expect that the ultimate costs to resolve these matters will have a material adverse affect on PIC's consolidated financial position, results of operation or cash flows.

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8. COMMITMENTS

The Company has outstanding noncancelable inventory purchase commitments with a contract packager of approximately $406,000 as of March 31, 2001. Under the terms of the agreement, the packager purchases components, manufactures, warehouses and distributes certain car care products for the Company. When inventories held by the packager exceed approximately 75 days from the date of production, the Company may be obligated to pay a storage handling fee of 1.5% per month, and/or purchase these inventories at the option of the packager.

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ITEM 2:

PROLONG INTERNATIONAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

	Percentage of Net Revenues	
	Three Months Ended March 31,	
	2001	2000
Net revenues	100.0	100.0
Cost of goods sold	31.5	22.3
Gross profit	68.5	77.7
Selling and marketing expenses	37.8	42.7
General and administrative expenses	23.5	18.4
Operating income	7.2	16.6
Other income (expense)	(2.8)	(1.9)
Income before income taxes	4.4	14.7
Provision for income taxes	3.3	6.4
Net income	1.1	8.3

Three Months Ended March 31, 2001 vs. Three Months Ended March 31, 2000

Net revenues for the three months ended March 31, 2001 were approximately $4,152,000 as compared to approximately $7,760,000 for the comparable period of the prior year, a decrease of $3,608,000 or 46.5%. Revenues for the three month period ended March 31, 2001 were derived from the following sources: Retail sales of $3,371,000 ($3,356,100 of lubricant products and $14,900 of appearance); international and other sales of $636,000; direct response television sales of $64,000 and, industrial sales of $81,000. Revenues for the three month period ended March 31, 2000 were derived from the following sources: Retail sales of $6,900,000 ($6,393,000 of lubricant products and $507,000 of appearance); international and other sales of $619,000; direct response television sales of $168,000, and industrial sales of $73,000.

During the first quarter of 2001, retail sales were 81.2% of total revenues while international and other sales comprised 15.3% of total revenues. During the first quarter of 2000, retail sales were 88.9% of total revenues while international and other sales comprised 8.0% of total revenues. The lower retail sales for the period ended March 31, 2001 versus the same period a year ago are attributable to a decrease in lubricant sales of approximately

$3,037,000 and a $492,100 decrease in appearance sales. The lubricant sales decline is attributable to a continuing soft market for specialty lubricants, higher than expected store inventory levels at major retailers, competitive factors and also due to the decision to discontinue the direct response infomercial for lubricants

in lieu of an ongoing evaluation of more cost effective means of promoting the line. Revenues for the appearance products declined due to a decreased demand and market acceptance of the product line and limited distribution. International sales remained steady for the quarter, and as a percentage of sales increased to 15.3%.

Cost of goods sold for the three months ended March 31, 2001 was approximately $1,307,000 as compared to $1,727,000 for the comparable period of the prior year, a decrease of $420,000 or 24.3%. As a percentage of sales, cost of goods sold increased from 22.3% for the three months ended March 31, 2000 to 31.5% for the three months ended March 31, 2001. The increase was mainly attributable to the shift in product mix with the international sales yielding a lower gross margin than the domestic retail lubricant sales and the recording of an one time sale of slow moving appearance products ($81,000), which was sold at a discount.

Selling and marketing expenses of $1,570,000 for the three months ended March 31, 2001 represented a decrease of $1,743,000 over the comparable period of the prior year. This 52.6% decrease was primarily the result of decreased expenses for endorsement and sponsorship payments, promotional activities to promote product awareness, expenditures for television air-time purchases, commissions and salaries. Selling and marketing expenses as a percentage of sales were 37.8% for the three months ended March 31, 2001 versus 42.7% for the comparable period of the previous year.

General and administrative expenses for the three months ended March 31, 2001 were approximately $977,000 as compared to $1,428,000 for the three months ended March 31, 2000, a decrease of $451,000 or 31.6%. This decrease is primarily attributable to a decrease in legal expenses and salaries (headcount). As a percentage of sales, general and administrative expenses increased from 18.4% in 2000 to 23.5% in 2001. Even though the aggregate expenses declined during the period, the ratio of expenses as a percentage of sales increased due to the more than expected decline in sales during the period.

Net interest expense of $117,000 for the three months ended March 31, 2001 represented a decrease of $35,000 over the comparable period in 2000. The decrease is attributable to a lower average balance in bank loans during the period.

Net income for the three month period ended March 31, 2001 was approximately $45,000 as compared to a net income of approximately $641,000 for the comparable period in the prior year, a decrease of $596,000. The decrease is a result of the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

The Company utilizes funds generated from operations and borrowings from an existing credit facility to meet its working capital requirements. At March 31, 2001, the Company had a net working capital of $242,000 as compared to a negative net working capital of $101,000 at December 31, 2000 or an increase of $343,000. During the period ended March 31, 2001, the Company used $8,100 in operations, which was primarily from increases in receivables and prepaid television time which were partially offset by increases in accounts payable and income taxes receivable. As of May 8, 2000, the Company entered into a new $6,000,000 credit facility with a financial institution, expiring in May 2003. Effective November 21, 2000 the credit facility was reduced to $5,000,000. Such facility is collateralized by eligible accounts receivable.

and inventories. Interest is currently payable monthly at the rate of the financial institution's prime rate (8.0% at March 31, 2001) plus 4% subject to a minimum interest charge of $50,000 per quarter. The credit facility contains certain defined net income and net equity covenants. At March 31, 2001, the Company was in compliance or had received a waiver which is dependent upon the Company and the financial institution executing an amendment to the credit agreement by May 31, 2001, for all financial covenants. As of March 31, 2001, $2,088,157 was outstanding and approximately $180,000 was available under the terms of the line of credit.

On October 30, 2000, the Company entered into a loan agreement with a lender for $675,000 with proceeds of approximately $504,000, net of loan costs and other payables. The loan has a maturity date of October 30, 2001 and includes an option to extend for one additional year. The loan is collateralized by a Third Priority Trust Deed lien against the Company's real property in Irvine, CA. Interest is payable monthly at the rate of the Prime Rate (8.0% at March 31, 2001) plus 2.5%.

The Company is currently seeking additional new financing arrangements through subordinated debt and/or equity providers. We cannot guarantee that we will be able to obtain funds when we need them or on acceptable terms, if at all. Any inability to obtain funds when we need them would have a material adverse effect on our financial condition. At March 31, 2001, the Company had an accumulated deficit of approximately $5,478,000. As a result, the Company is vigorously continuing to evaluate further reductions in operating expenses and manpower requirements, and revise vendor payment terms to the extent possible. We cannot guarantee that the timing of further reductions in operating expenses will be adequate to return to profitability for the remainder of the Year 2001 and beyond. There are also continued efforts to convert certain assets to cash on an accelerated basis which may include the sale and/or sale and leaseback of the current facility in Irvine, CA. Management will also continue to vigorously defend the litigation described in Note 7 of Notes to Consolidated Condensed Financial Statements. Management believes that these plans, if successfully executed, will provide adequate financial resources to sustain the Company's operations and enable the Company to continue as a going concern.

ITEM 3:

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PIC's financial instruments include cash and long-term debt. At March 31, 2001 and December 31, 2000 respectively, the carrying values of PIC's financial instruments approximated their fair values based on current market prices and rates. It is PIC's policy not to enter into derivative financial instruments. PIC does not currently have any significant foreign currency exposure since it does not transact business in foreign currencies. Due to this, PIC did not have significant overall currency exposure at March 31, 2001 and December 31, 2000.

RISK FACTORS AND FORWARD LOOKING STATEMENTS

This report contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. In addition, the Company may from time to time make oral forward looking statements. Actual results are uncertain and may be impacted by the

factors discussed in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission. In particular, certain risks and uncertainties that may impact the accuracy of the forward looking statements with respect to revenues, expenses and operating results including without limitation, the risks set forth in the risk factors section of the Annual Report on Form 10-K for the year ended December 31, 2000, which risk factors are hereby incorporated into this report by this reference. As a result, the actual results may differ materially from those projected in the forward looking statements.

Because of these and other factors that may affect the Company's operating results, past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

PROLONG INTERNATIONAL CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 7 of the notes to consolidated condensed financial statements.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Company during the Quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PROLONG INTERNATIONAL CORPORATION

Date: May 7, 2001

/s/ Nicholas Rosier

Nicholas Rosier
Chief Financial Officer
(Principal Financial Officer)